MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2022/2023

DAU5024 – AUDITING 2

(All sections/Groups)

12 JULY 2023
9.00 a.m.-12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 9 pages excluding cover page with 4 questions only.
2. Answer **ALL** questions.
3. Please write your answers in the Answer Booklet provided.

QUESTION 1

PART A

Prime Food Berhad (PIB) produces snacks such as cookies, potato chips, and cereals. The company has been operating for seven years and sells its products to retailers in Malaysia. The company has five central operation departments involved in sales processes: the sales department, warehouse department, shipping department, billing department, and accounting department.

Last year, the company identified weaknesses in internal control related to the sales process. As a result, the company has observed an increase in bad debt and product delivery complaints from customers. This situation resulted in a substantial decline in the company's profits. The company has outsourced your team as the internal auditor to detect the internal control weaknesses in the company sales process. The following is the description of the company's sales process.

Sales Department

The sales staff mainly generates sales during their monthly visit to the retailer's premises. Each sales staff will refer to the company's approved pricing list before any consultation with the potential customer. The company updates the approved pricing list on a monthly basis. The customer is entitled to a unique discount percentage ranging from 5% to 10% for any large orders, and sales staff may apply any discount rate at their preference.

Sales staff will enter confirmed customer orders into the sales order system. Each sales order form is numbered based on the sales staff's employee number to keep track of the sales staff's performance. In addition, any sales staff that achieves monthly sales targets will receive monetary rewards from the company. The sales clerk, Linda, will print four copies of the sales order form. One copy of the sales order form is sent to the warehouse, one copy is sent to the shipping department, one copy is sent to the billing department, and the last copy is sent to the accounting department.

Linda will conduct a credit check for new customers and set an appropriate customer credit limit. Next, she will record the credit details in the customer master file and **form Y**. As for returning customers, **form Y** will be filled out by Linda with their credit details. Every **form Y** will be forwarded to the sales manager for approval. Next, Linda will manually prepare two copies of the prenumbered picking ticket and send both to the warehouse.

Warehouse Department

The company store all final products in the warehouse. Brian, the warehouse staff, will transfer the product from the warehouse to the shipping department. Dinesh, the warehouse supervisor, will examine the product type, product quality and quantity based on the details in the picking ticket and the sales order form before the product is transferred to the shipping department. Dinesh will sign the picking ticket as approval for the product transfer. If Dinesh is away from the warehouse, Brian will inspect the product

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and sign the picking. This step is performed to prevent shipment delays. One copy of the picking ticket is kept in the warehouse for proof of product movement, and the other is sent to the shipping department.

Shipping Department

Kevin, the shipping staff, is in charge of receiving products from the warehouse daily. Kevin will confirm the product information with the details in the picking ticket received from the warehouse before accepting the products. Kevin will sign and stamp "Received" on the picking ticket and pack the product if the product details match the details in the picking ticket.

Jess, the shipping clerk, will manually prepare two copies of the sequential prenumbered delivery order form. Jess will refer to the picking ticket to record the types of products and product quantity in the delivery order form. Next, Jess will refer to the sales order form to record the customer details such as customer name, customer address, and expected delivery date in the delivery order form. Daily, the delivery staff will collect the delivery order form and packages for the delivery procedure. Due to the high delivery volume, the delivery staff only sometimes requested the customer's signature on the delivery order form once the customer received the packages. The customer will receive a copy of the delivery order form, and the shipping department will keep another copy.

Billing Department

Once the packages have been delivered to the customer, the billing department staff prepares the sales invoice. Selena, the billing clerk, will prepare three copies of the sequential prenumbered sales invoice based on the details on the sales order form and delivery confirmation with Jess through a phone call. One copy of the sales invoice is sent to the customer, one copy is kept in the billing department, and the last copy is sent to the accounting department.

Accounting Department

The accountant will record each sales transaction in the sales journal and account receivable subsidiary ledger based on the details in the sales invoice and sales order form. Based on the company policy, the customer's monthly statement is prepared and sent only to customers with large account receivable balances at the end of the month.

Required

(a) Identify and explain any **FIVE (5)** internal control weaknesses in the company's sales processes. For each weakness, explain the potential risk that may happen in the company.

(20 marks)

(b) What is form Y? (1 mark)

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PART B

You are the audit senior in charge of the audit of BBM Berhad, a public listed company. The company's year-end is 31 December. The audit fieldwork is due to commence in four weeks, and you are preparing the audit work program for the audit assistant. You plan to assign your audit assistant to perform a cut-off test procedure to verify the company's account receivable balance for 2022.

Required

(a) What is the objective of the cut-off test procedure? (2 marks)

(b) Explain the procedure that needs to be completed by the audit assistant in performing the cut-off test procedure. (2 marks)

(Total: 25 marks)

QUESTION 2

PART A

Haute Style Berhad (HSB) manufactures women's clothing, and its year-end was 31 December 2022. You are the audit senior of Amber & Co and are responsible for examining the balances of the company's purchasing account. Based on the audit procedure you performed earlier, you have identified a high control risk in three purchasing functions in HSB. The purchasing functions are listed in **Figure 1** below:

- Purchasing
- Receiving
- Invoice processing

Figure 1

You have gathered information and documents from HSB for the audit. **Schedule 1** on the next page shows the HSB purchases for the fiscal year ending 31 December 2022 and 31 December 2021.

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Purchases	31/12/2022 RM'000	31/12/2021 RM'000
Fabric	2,590	1,870
Thread	890	800
Zip and Hook	50	45
Label and tags	20	15
Button & Ribbons	58	43
Payroll	1,900	1,660
Telephone and Internet	24	24
Electricity	85	70
Equipment maintenance	39	24
Other purchases	690	540
Totals	**6,346**	**5,091**

Schedule 1

Required

(a) Explain **ONE (1)** purpose for each purchasing function listed in **Figure 1**. (6 marks)

(b) List **FOUR (4)** examples of documents needed in the invoice processing functions. (4 marks)

(c) Based on the data in **Schedule 1**, state the name audit procedure that you may apply to analyse the data and explain the objective of the audit procedure. (3 marks)

(d) Describe how you will analyse the data in **Schedule 1** based on the audit procedure you have identified in (c). (2 marks)

(e) Explain the meaning of high control risk. (2 marks)

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PART B

Naufal & Co is responsible for the financial statement audit of West Trading Berhad (WTB), which manufactures beauty products. WTB has been a recurring client for Naufal & Co since 2020. As the audit assistant at Naufal & Co, you are assigned to perform substantive audit procedures to analyse the company's trade account payable balance for the year ending 30 June 2022. Based on the previous year's working papers, you have identified that the company recorded a significant decrease in its trade account payable balance. Therefore, you plan to analyse the trade account payable by performing the substantive test of the transaction and searching for unrecorded liability.

Required

(a) Describe the substantive test of transaction that you will conduct to achieve the following audit objective:

i. Existence of purchases
ii. Completeness of purchases

(Note: Use the table format below to write your answer)

Audit Objective	Substantive Test of Transaction
i.	
ii.	

(4 marks)

(b) Describe **TWO (2)** audit procedures you may perform to search for unrecorded liability in WTB. (4 marks)

(Total: 25 marks)

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QUESTION 3

Your audit team is assigned to the audit of Max Manufacturing Sdn Bhd, a medium size manufacturing company in Petaling Jaya. You are required to examine the manufacturing equipment account balances during the audit process. Test of controls have been performed on property, plant and equipment (PPE) accounts and have been evaluated as effective. **Figure 2** shows the internal control implemented by the company to safeguard its PPE account balances.

i.	A fixed asset master file is maintained by employees who do not have custody over the asset.
ii.	Purchases of assets, major repairs and disposal are authorised and approved by Board of Director or senior employee.
iii.	Formal procedure to record depreciation of assets are maintained.
iv.	Manufacturing equipment is protected with insurance.

Figure 2

The client had prepared the following schedules of property, plant and equipment (PPE) for the audit of the financial statement for the year ended 31 December 2022.

Account Description	1/1/2022 Beginning Balance	Addition	Disposal	31/12/2022 Ending Balance
	RM	RM	RM	RM
Manufacturing Equipment	1,400,000	420,000	70,000	1,750,000
Office Equipment	980,000	60,000	20,000	1,020,000
Furniture & Fittings	430,000	-	-	430,000
Total	**2,810,000**	**480,000**	**90,000**	**3,200,000**

The company uses the following depreciation rates:

- Manufacturing Equipment -20% straight line
- Office Equipment – 10% straight line
- Furniture & Fittings – 10% straight line

According to the audit program, your audit team will spend only one day at the company premise to examine the company's PPE account balances. The time allocation to verify the PPE account is shorter as compared to the allocation of time to verify the current assets account.

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Required

(a) Why does the auditor spend less time in verifying the Property, Plant, and Equipment account than the current asset account? Provide **THREE (3)** reasons for your answer. (6 marks)

(b) Suggest **ONE (1)** test of control that you may apply to examine the internal control listed in **Figure 2**.

(Note: Use the table format below to write your answer)

Internal Control	Test of Control
i.	
ii.	
iii.	
iv.	

(8 marks)

(c) List **FIVE (5)** types of information that can be found in a fixed asset master file. (5 marks)

(d) Describe **ONE (1)** substantive test of analytical procedure you may apply to verify the depreciation for the manufacturing equipment account. (2 marks)

(e) Describe the substantive test of account balance you will conduct to achieve the following audit objective:

i. Existence of new addition of manufacturing equipment.
ii. Existence of disposal of manufacturing equipment.

(Note: Use the table format below to write your answer)

No	Substantive Test of Account Balance
i.	
ii.	

(4 marks)

(Total: 25 marks)

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QUESTION 4

PART A

Bryson, the audit assistant, will conduct the audit of LMX Berhad's financial statements in the capital acquisition and repayment cycle. This cycle is critical for the audit because it determines the amount of funding available for the company's growth and investment. Among the transactions that he will concentrate on is the transaction involving share capital. Bryson was notified that LMX Berhad had hired an independent share registrar. Bryson's first task will be to assess the effectiveness of the company's internal controls over the capital acquisition and repayment cycle.

Required

(a) Describe **TWO (2)** characteristics of capital acquisition and repayment cycle. (4 marks)

(b) List **THREE (3)** duties of an independent share registrar. (3 marks)

(c) In addition to the use of an independent share registrar, identify and describe **TWO (2)** internal controls related to share capital transactions that LMX Berhad may implement. (4 marks)

(d) Describe the audit procedures that Bryson might use to verify the following audit objective concerning the company's share capital transactions.

i. Existence of share capital.
ii. Accuracy of dividend payment.

(Note: Use the table format below to write your answer)

Audit Objective	Audit Procedures
i.	
ii.	

(4 marks)

(e) Apart from share capital transactions, name **ONE (1)** funding source that Bryson may examine in the company's capital acquisition and repayment cycle. (1 mark)

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PART B

As part of the audit of Wayson Berhad, Leona has the responsibility for testing the payroll and personnel cycle of the company for the year-end 31 December 2022. The payroll account represents the most significant expense account in the client's trial balance. Leona examined the internal control over the payroll and personnel cycle and concluded that there are no significant weaknesses. **Figure 3** shows the list of internal control implemented by Wayson Berhad in the payroll and personnel cycle.

No	Internal Control
1.	Time card and job time ticket are approved by supervisor.
2.	Personnel files are maintained adequately.
3.	There is a segregation of duty between personnel, timekeeping, and payroll disbursement.

Figure 3

Required

(a) Describe the test of control that Leona may conduct to examine the internal control in **Figure 3**.

(Note: Use the table format below to write your answer)

No	Test of Control
1.	
2.	
3.	

(6 marks)

(b) Describe each of the documents below:

(i) Time card
(ii) Job time ticket
(iii) Personnel file

(3 marks)

(Total: 25 marks)

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